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USPS-T-37

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

DIRECT TESTIMONY
OF
JAMES M. KIEFER
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

My name is James M. Kiefer. I am an Economist in the Office of Pricing, Marketing Systems, at the United States Postal Service. Since joining the Postal Service in 1998, I have worked on issues related to Special Standard and Library Mail, Special Services and nonletter-size Business Reply Mail.

Prior to joining the Postal Service I worked for the Vermont Department of Public Service, first as Power Cost Analyst, and later as Planning Econometrician, where I investigated utility costs, rates, load forecasts and long term plans. I also developed long range electric generation expansion plans for the State, performed economic impact studies, and contributed to a long-term energy use plan for Vermont. I have testified as an expert witness before the Vermont Public Service Board on many occasions on economic issues involving cost of power, generation expansion plans, least cost integrated planning, load forecasts, and electric utility rates.

Before working in Vermont, I was a Principal Analyst with the Congressional Budget Office. Past work experience also includes work with the U.S. Department of Commerce and work in production management in private industry.

I earned a BA in Chemistry from the Johns Hopkins University. In 1980 I earned an MBA from Rutgers University, and in 1981 an MA degree in International Relations from the Nitze School of Advanced International Studies. I then returned to Johns Hopkins in Baltimore to study Economics where I earned an MA in 1983 and a PhD in 1986.

I have testified before the Postal Rate Commission previously in Docket No. MC99-1 and Docket No. MC99-2.

1 **I. PURPOSE OF TESTIMONY AND GUIDE TO DOCUMENTATION**

2 The purpose of my testimony is to sponsor the Postal Service's pricing
3 proposals for the Special Standard Mail, Library Mail and Bound Printed Matter
4 classifications. My testimony will describe these three mail subclasses, discuss
5 their rate and volume histories, describe the design of the new rates, and discuss
6 the financial impacts of the proposed rates.

7 Accompanying my testimony are workpapers and Library Reference I-11.
8 The library reference consists of an electronic version of my workpapers.

9

10 **II. SUMMARY OF PROPOSED RATE AND CLASSIFICATION CHANGES**

11 Special Standard Mail, Library Mail and Bound Printed Matter are, along with
12 Parcel Post, the four subclasses of Standard Mail (B). The Postal Service is
13 renaming Standard Mail (B), also commonly referred to as Standard B mail, as
14 Package Services. The Postal Service is renaming Special Standard Mail as
15 Media Mail. The Postal Service is proposing that the Commission recommend
16 conforming changes in the DMCS. For the sake of convenience in this docket, I
17 have continued to use the current names within my testimony and workpapers.

18

19 **A. Special Standard Mail (Media Mail)**

20 The Postal Service proposes an average increase in Special Standard
21 Mail rates of 4.9%. This increase yields a cost coverage of 112.5%. The first-
22 pound rate for Single Piece Special Standard Mail will increase from \$1.13 to
23 \$1.21, with Presort A mail increasing from \$0.64 to \$0.68, and Presort B mail
24 increasing from \$0.95 to \$0.99. For all categories, the second through seventh
25 pounds will pay \$0.45 per pound, the same as the current rate per pound; the
26 eighth through seventieth pounds will pay \$0.30 per pound, an increase of two

cents over the current rate. Eligible pieces will continue to receive a \$0.03 per piece discount for destination ZIP Code barcoding.

B. Library Mail

The Postal Service proposes an average increase in Library Mail rates of 4.5%, yielding a cost coverage of 104.7%. The first-pound rate for Single Piece Library Mail will increase from \$1.13 to \$1.20, with Presort A mail increasing from \$0.64 to \$0.67, and Presort B mail increasing from \$0.95 to \$0.98 for the first pound. These rates decouple the Library Mail rate schedule from the Special Standard Mail rate schedule by giving Library Mail a one-cent discount from Special Standard Mail in every rate cell. For all categories, the second through seventh pounds will pay \$0.45 per pound, the same as the current rate per pound; the eighth through seventieth pounds will pay \$0.30 per pound, an increase of two cents per pound from the current rate. Eligible pieces will continue to receive a \$0.03 per piece discount for destination ZIP Code barcoding.

C. Bound Printed Matter

The Postal Service proposes an average increase in Bound Printed Matter rates of 18.1%, yielding a cost coverage of 117.6%. This large increase in rates was necessitated by increasing costs and has been substantially mitigated by reducing the cost coverage.¹

¹ In Docket No. R97-1, the Postal Rate Commission recommended a 135.6% cost coverage for Bound Printed Matter, based on the Commission's attributable costs for BPM, which were higher than those estimated by the Postal Service.

1 The Postal Service is also proposing three new worksharing discounts for
2 mail that is drop-shipped at the destination BMC, the destination SCF, or the
3 destination delivery unit. Taking advantage of these drop-ship discounts will, in
4 many cases, also help to mitigate the net impact of the rate increases.

5 The Postal Service also proposes to maintain the current 7.7 cent per
6 piece worksharing discount for carrier route presorting of mail, and the current
7 three cent per piece discount for eligible machinable pieces that bear a correct
8 destination ZIP Code.

9 10 **III. SPECIAL STANDARD MAIL (MEDIA MAIL)**

11 **A. Description and Characteristics of Special Standard Mail**

12 The Special Standard Mail subclass has existed since November of 1938,
13 when the Post Office established a Special Fourth Class Book rate for books
14 having at least 24 pages and consisting of reading material only. Since its
15 inception, the Special Standard subclass has expanded to include not only
16 books, but other media such as sound and video recordings, certain films and
17 film catalogs, printed music, certain test materials, playscripts and manuscripts,
18 computer readable media, and certain other qualified items as well.

19 The Special Standard subclass has no 16-ounce limitation, so Special
20 Standard Mail can range from less than one pound to a maximum of 70 pounds.²
21 Most Special Standard Mail pieces consist of small parcels: half of all pieces
22 weigh under a pound, and 95% weigh less than five pounds. Since March of

² At present, Parcel Post and Bound Printed Matter are restricted to mail weighing one pound or more. The Postal Service is proposing to have this restriction removed as part of this docket. See Section V.D. for a discussion of this issue for Bound Printed Matter.

1 1999, Special Standard Mail has been eligible for the Postal Service's new
2 Delivery Confirmation service.

3

4 **B. Rate History**

5 By law, rates for Special Standard Mail do not vary with the distance
6 transported.³ Special Standard Mail shares this unzoned feature with the
7 Library Mail subclass. All other Standard B mail rates are zoned. When it was
8 first established in 1938, Special Standard Mail paid a fixed rate per pound. In
9 1949, rates were changed to a two-part structure: one rate for the first pound and
10 a second, lower, rate for each additional pound. Since 1975, a three-part rate
11 structure has been in force: the first rate for the first pound, the second rate for
12 pounds two through seven, and the third rate for each additional pound.

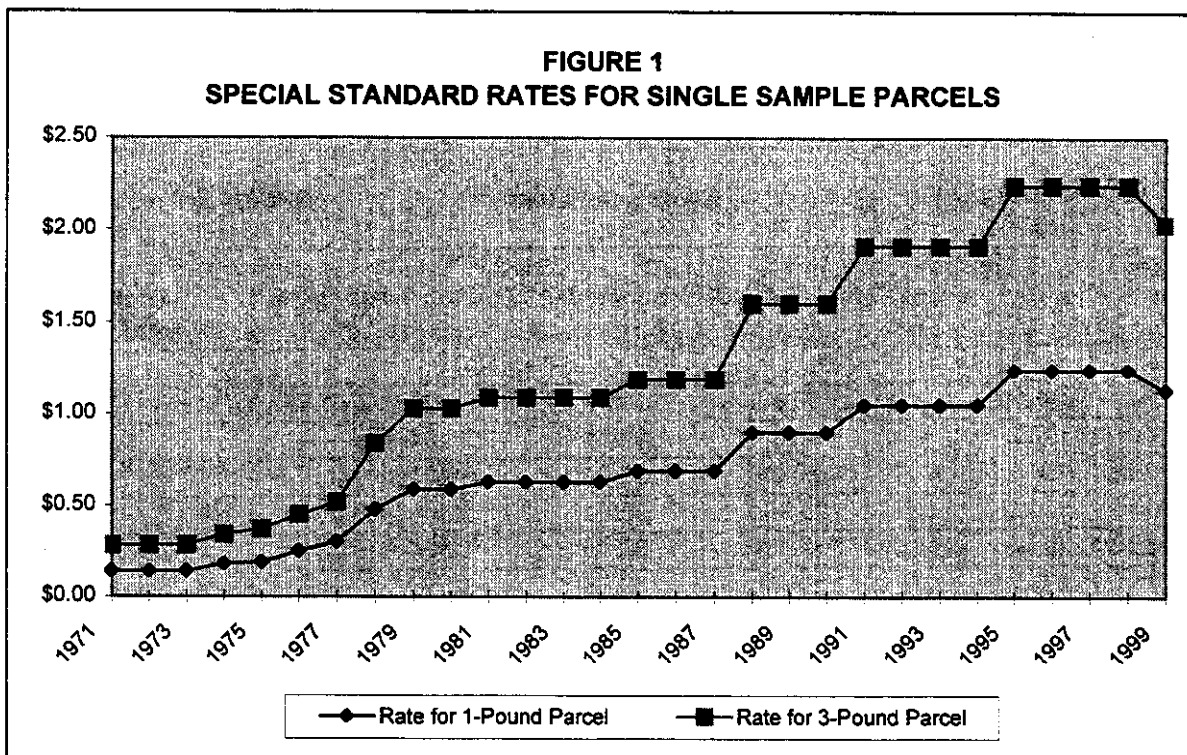
13 In 1978, the Postal Service began offering presort discounts to Special
14 Standard mailers. Currently, properly prepared and sorted Special Standard
15 mailings consisting of 500 or more pieces are eligible for discounts, depending
16 on whether the mail is sorted to the 5-digit destination ZIP Code level, or to the
17 destination BMC level. In addition, mailings of 50 or more machinable parcels of
18 single piece or BMC presort Special Standard Mail are eligible to receive a
19 further discount of three cents per piece if they bear a correct, readable barcode
20 showing the delivery address ZIP Code.

³ See 39 U.S.C. section 3683(a),

TABLE 1
SPECIAL STANDARD MAIL RATE HISTORY

Effective Date of Rate	Rates per Pound			Per Piece Presort Discount	
	First Pound	Pounds 2-7	Pounds 8-70	BMC	5-Digit ZIP Code
Nov. 1, 1938	\$0.015	\$0.015	\$0.015		
Jul. 1, 1942	\$0.03	\$0.03	\$0.03		
Jan. 1, 1949	\$0.08	\$0.04	\$0.04		
Aug. 1, 1958	\$0.09	\$0.04	\$0.04		
Jan. 7, 1963	\$0.095	\$0.04	\$0.04		
Jan. 1, 1964	\$0.10	\$0.04	\$0.04		
Jan. 7, 1968	\$0.12	\$0.06	\$0.06		
May 16, 1971	\$0.14	\$0.07	\$0.07		
Sep. 9, 1973	\$0.16	\$0.08	\$0.08		
Mar. 2, 1974	\$0.18	\$0.08	\$0.08		
Jul. 6, 1975	\$0.19	\$0.09	\$0.09		
Sep. 14, 1975	\$0.20	\$0.09	\$0.09		
Dec. 31, 1975	\$0.21	\$0.09	\$0.08		
Jul. 6, 1976	\$0.25	\$0.10	\$0.08	\$0.008	\$0.011
Jul. 6, 1977	\$0.30	\$0.11	\$0.08	\$0.016	\$0.021
May 29, 1978	\$0.36	\$0.14	\$0.10	\$0.016	\$0.027
Jul. 6, 1978	\$0.48	\$0.18	\$0.11	\$0.033	\$0.054
Jul. 6, 1979	\$0.59	\$0.22	\$0.13	\$0.04	\$0.07
Mar. 22, 1981	\$0.63	\$0.23	\$0.14	\$0.05	\$0.17
Feb. 17, 1985	\$0.69	\$0.25	\$0.15	\$0.09	\$0.22
Apr. 3, 1988	\$0.90	\$0.35	\$0.20	\$0.07	\$0.25
Feb. 3, 1991	\$1.05	\$0.43	\$0.25	\$0.17	\$0.46
Jan. 1, 1995	\$1.24	\$0.50	\$0.31	\$0.20	\$0.54
Jan. 10, 1999	\$1.13	\$0.45	\$0.28	\$0.18	\$0.49

1 Table 1 presents the history of Special Standard Mail rates from 1938 to
2 the present. Since 1971, Special Standard single piece rates have generally
3 increased, although in Docket No. R97-1, the Commission recommended and
4 the Governors accepted a rate decrease for this subclass. Figure 1 shows how



the prices of sending a one-pound and a three-pound Special Standard parcel have changed since 1971.⁴

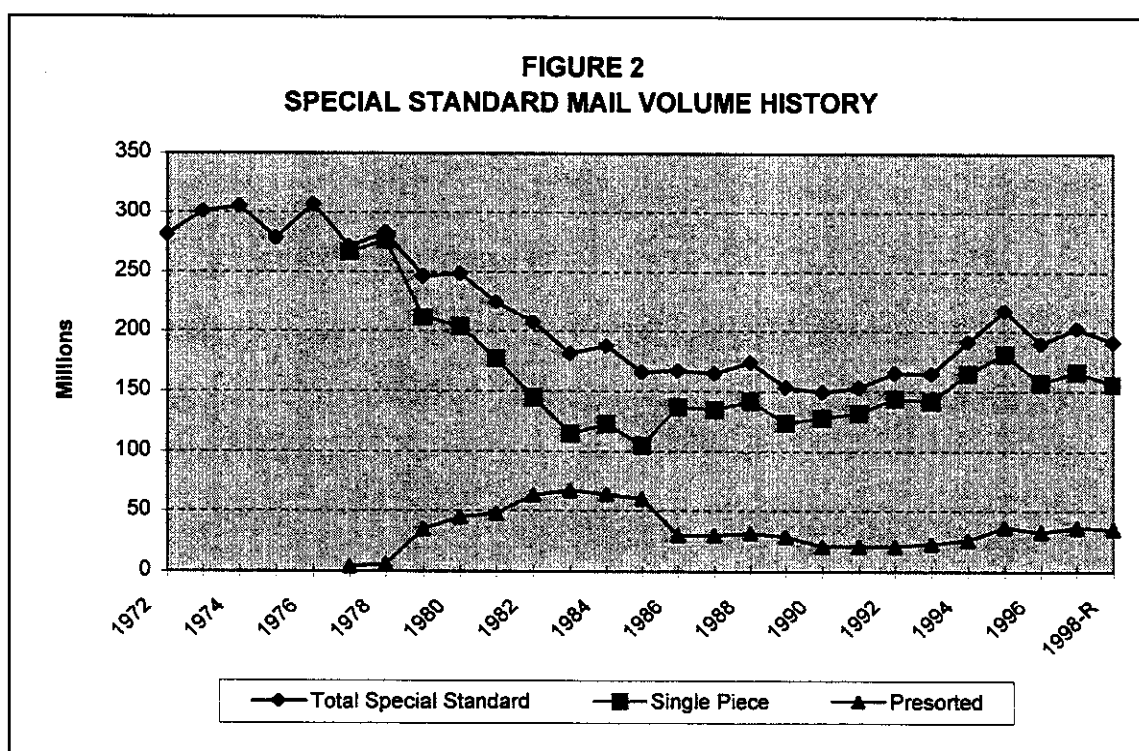
C. Volume History

From the middle 1970s up until about 1990, Special Standard Mail volumes generally declined. This trend reversed itself in the first half of the 1990s as volume began to grow again, first slowly, then more vigorously. The 1990s growth spurt peaked in 1995, and volumes seem to have once again returned to a generally declining path. Table 2 and Figure 2 show the Special Standard Mail volume history since FY 1972.

Following the introduction of discounts in mid-1976, the volume of presorted Special Standard Mail grew slowly, but then volume took off after the

⁴ Almost 90% of all Special Standard Mail pieces weigh three pounds or less.

1 Postal Service allowed mailers to pay postage using meter stamps in early 1979.
 2 Much of this growth probably came from mailers shifting their single piece
 3 mailings to take advantage of the discounts: after 1978, single piece Special
 4 Standard Mail volumes dropped sharply. In 1981, the Postal Service liberalized
 5 the requirements for presort level B, spurring further growth, even as total
 6 Special Standard Mail volume continued to fall.⁵ By 1983, presorted mail
 7 accounted for 37% of Special Standard Mail volume.



8 After the middle of the 1980s, single piece Special Standard Mail halted
 9 its sharp decline and appeared to be on a long-term growth path. In the early
 10 years, some of this growth may have come from a fall-off in presorted mail
 11 volumes, but by the early 1990s, both single piece and presort Special Standard

⁵ In March of 1981, the Postal Service reduced the minimum volume eligible for presort B from 2,000 to 500 pieces, and changed the presort requirement from 5 and 3 digit ZIP Code presort to destination BMC presort.

TABLE 2
SPECIAL STANDARD MAIL VOLUME HISTORY

Notes	Fiscal Year	Volume (Millions)		
		Total	Single Piece	Presorted
	1972	282		
	1973	301		
	1974	305		
	1975	279		
<u>1/</u>	1976	307		
	1977	272	267	4
	1978	283	277	6
	1979	247	212	35
	1980	249	204	45
	1981	225	177	48
	1982	208	145	63
	1983	181	115	67
	1984	188	123	64
	1985	166	105	60
	1986	167	137	30
	1987	165	135	30
<u>2/</u>	1988	174	142	32
	1989	153	124	29
	1990	149	128	21
	1991	153	132	21
	1992	165	144	21
	1993	165	142	23
	1994	191	165	26
	1995	218	181	37
	1996	190	157	33
	1997	203	166	37
<u>3/</u>	1998	191	156	35
Note <u>1/</u> : Presort discounts became available July 6, 1976.				
Note <u>2/</u> : 1988 and following years are recast to include a share of penalty and franked mail.				
Note <u>3/</u> : 1998 is recast to account for a Parcel Post reclassification.				

- 1 Mail contributed to growth. Single piece Special Standard Mail volume peaked in
- 2 1995, and appears to have once again resumed a downward trend. With the
- 3 flattening of presort volume growth since 1995, total volumes once again are
- 4 falling.

1

2 **D. Rate Design**3 **1. Methodology⁶**

4 I began the rate design for Special Standard Mail by assigning volume variable
5 costs to the subclass on a per-piece and per-pound basis. I developed the per-
6 pound rate by first allocating all attributable transportation costs (Cost Segments
7 8 and 14) plus the customary two-cent per pound add-on for weight-related non-
8 transportation costs to the number of postage pounds (see workpaper
9 WP-SS-7). I allocated all other costs plus revenue leakages to the per-piece
10 component of the rate (see workpapers WP-SS-8 and WP-SS-9).⁷

11 To develop the per-pound rate, I divided the transportation and non-
12 transportation weight-related costs by the total number of postage pounds and
13 marked up these unit costs by the cost coverage markup factor designed to
14 reach the cost coverage ratio proposed by witness Mayes (USPS-T-32) for
15 Special Standard Mail. The sum of these two marked-up cost figures became
16 the preliminary pound rate (see workpaper WP-SS-10).

17 I then divided the non-transportation costs (less the weight-related non-
18 transportation costs) by the total number of pieces and marked up these unit
19 costs by the cost coverage markup factor, and added in the per-piece revenue
20 leakages to obtain the preliminary per-piece rate. The details of these
21 calculations are shown in workpapers WP-SS-9 and WP-SS-10. I set the

⁶ The overall rate design for Special Standard Mail follows the design recommended by the Commission in rate proceedings dating back to Docket No. R76-1. Most recently, it formed the basis of the rates proposed by Witness Adra in Docket No. R97-1 (USPS-T-38) and recommended by the Commission in that docket.

⁷ Leakages include revenue lost to Presort A and B, and barcode discounts.

1 preliminary first pound single piece rate as the sum of the per-piece rate and the
2 per-pound rate.

3

4 **2. Presort and Barcode Discounts**

5 For Presort A and B mail, I deducted the respective per-piece cost savings
6 provided by Witness Eggleston (USPS-T-26) from the single piece first pound
7 rate. Witness Eggleston also reports cost savings of 2.9 cents per piece on
8 barcoded mail, which I rounded up to the nearest whole cent. Eligible barcoded
9 parcels would then receive an additional discount of 3 cents off the first pound
10 rate.

11

12 **3. Adjustments to Preliminary Rate Elements**

13 Table 3 shows the preliminary first pound and additional pound rate elements for
14 single piece and presort Special Standard Mail, together with the current rate
15 elements for comparison. While these preliminary rates are the best reflection of
16 the underlying per-piece and per-pound costs of Special Standard Mail, it is likely
17 that these preliminary rates, if left unadjusted, would produce a rather severe
18 rate shock. To mitigate the impact of the first pound rate increases, I have
19 adjusted the first pound rates downward significantly. This adjustment produces
20 much more moderate increases for the first pound rates. To keep the impacts of
21 the adjustments approximately revenue neutral, I increased the per-pound rates
22 for the second to seventh pounds and, to a lesser extent, for the eighth to
23 seventieth pounds. Workpaper WP-SS-11 provides the details of these rate
24 adjustments. The results of these adjustments are shown in Table 4, which
25 presents the current and proposed rates.

TABLE 3 COMPARISON OF PRELIMINARY AND CURRENT SPECIAL STANDARD MAIL RATE ELEMENTS			
	Current Rates	Preliminary Rates	Percent Change
First Pound Rate			
Single Piece	\$1.13	\$1.40	23.9%
Presort A	\$0.64	\$1.04	62.5%
Presort B	\$0.95	\$1.30	36.8%
Pounds 2-7 Rate	\$0.45	\$0.24	-46.7%
Pounds 8-70 Rate	\$0.28	\$0.24	-14.3%

1 If we were to follow the principle of having rates reflect cost causation
 2 strictly, we would have to propose the much higher first pound rate increases
 3 shown in Table 3. I believe that having rates that better comport with cost
 4 causation is an important goal, but it is not a goal that we should always attempt
 5 to reach at one jump, regardless of its impact on mailers. In this case I have
 6 mitigated, but not removed altogether, the first pound rate increases. If this
 7 approach is continued over time, the Special Standard Mail rate schedule will
 8 evolve to reflect more closely the underlying costs of the subclass, and so send
 9 the appropriate price signals to mailers.

12 **4. Proposed Rate Schedules**

13 My workpaper WP-SS-12 contains my proposed adjusted rates for
 14 Special Standard Mail, and shows the percentage increase of each rate cell from
 15 its current value. The rates do not reflect any barcode discounts. Eligible pieces

**TABLE 4
CURRENT AND PROPOSED RATE ELEMENTS FOR
SPECIAL STANDARD MAIL**

	Current Rates	Proposed Rates	Percent Change
First Pound Rate			
Single Piece	\$1.13	\$1.21	7.1%
Presort A	\$0.64	\$0.68	6.3%
Presort B	\$0.95	\$0.99	4.2%
Pounds 2-7 Rate	\$0.45	\$0.45	0.0%
Pounds 8-70 Rate	\$0.28	\$0.30	7.1%

1 may receive a further discount of three cents per piece off the rates shown in
2 workpaper WP-SS-12 if they bear a correct, readable barcode showing the
3 delivery address ZIP Code. Table 4 summarizes the proposed rates by showing
4 the basic rate elements: the first pound rate, the per-pound rate for the second
5 through seventh pounds, and the per-pound rate for the eighth through
6 seventieth pounds, and shows how these elements have changed from the
7 current rates.

**TABLE 5
SPECIAL STANDARD MAIL FINANCIAL SUMMARY**

	Volume	Cost Including Contingency	Revenue Including Fees	Cost Coverage
Before Rates	208,687,103	\$304,846,275	\$327,631,351	107.5%
After Rates	205,788,639	\$301,195,225	\$338,764,426	112.5%

TABLE 6 SPECIAL STANDARD MAIL PER-PIECE FINANCIAL SUMMARY			
	Cost Per Piece	Revenue Per Piece	Contribution Per Piece
Before Rates	\$1.46	\$1.57	\$0.11
After Rates	\$1.46	\$1.65	\$0.18
Per Piece Changes	0.2%	4.9%	67.2%

1

2

3 **5. Financial Impact of Rates**

4 Tables 5 and 6, based on my workpaper WP-SS-15, show the financial impacts
5 of the proposed rate changes. Table 5 presents the total volume, cost (including
6 contingency) and revenue, including fees, under both existing and proposed
7 rates and fees. Table 6 presents the average cost, and revenues from both the
8 existing and proposed rates and fees. It also shows the contributions these
9 rates and fees make to institutional costs, as well as percentage increases for
10 unit cost, revenue, and contribution.

11

12 **IV. Library Mail**

13 **A. Description and Characteristics of Library Mail**

14 The Library Mail subclass began in July 1928 as the Library Book Rate,
15 established by Congress to permit nonprofit libraries and similar organizations to

1 send books among themselves and between themselves and their borrowers.
2 Later, Congress broadened the range of eligible mailers to include schools,
3 colleges and universities, certain nonprofit organizations, and museums and
4 herbaria. It also expanded the catalog of items eligible for this rate to include
5 certain films, filmstrips, transparencies and projection slides, microfilms, sound
6 recordings, and catalogs of such materials, bound and sheet music, bound
7 volumes of academic theses, and other library and museum materials.

8 Like Special Standard Mail, the Library Mail subclass has no 16-ounce
9 limitation: mail can range in weight from less than one pound to a maximum of
10 70 pounds. The Library Mail weight profile is also similar to Special Standard
11 Mail's: about half of all pieces weigh under a pound, and 96% weigh less than
12 six pounds. Since March of 1999, mailers sending items at the Library Mail rate
13 can also use the Postal Service's new Delivery Confirmation service.

14 15 **B. Rate History**

16 Like Special Standard Mail, Library Mail has unzoned rates: they do not
17 vary with the distance transported. Originally, the special rate for Library Mail
18 was available only within the first three parcel post zones, or within a state. In
19 1958, Congress lifted the zone restriction, and the uniform rate became available
20 for mail sent to all domestic destinations, regardless of zone.

21 For the first 50 years after its establishment in 1928, Library Mail had a
22 two-part rate structure: one rate for the first pound and a second, lower, rate for
23 each additional pound. In 1978, a three-part rate structure, similar to the Special
24 Standard Mail rate structure was instituted: the first rate for the first pound, the
25 second rate for pounds 2 through 7, and the third rate for each additional pound.

1 As a result of Docket No. R97-1, the Special Standard and Library Mail
2 rate schedules were effectively merged when the Postal Rate Commission
3 recommended a rate schedule for Library Mail that was identical to the Special
4 Standard Mail rate schedule.⁸ This meant that, for the first time, Library Mail
5 became eligible for presort discounts. Properly prepared and sorted mailings
6 consisting of 500 or more pieces are now eligible for discounts depending on
7 whether the mail is sorted to the 5-digit destination ZIP Code, or to the
8 destination BMC level. In addition, mailings of 50 or more machinable parcels of
9 single piece or BMC presort Library Mail are eligible to receive a further discount
10 of three cents per piece if they bear a correct, readable barcode showing the
11 delivery address ZIP Code. Table 7 details the history of Library Mail rates from
12 1928 to the present.

13 Library Mail's status as a preferred, and historically subsidized, subclass
14 has complicated its rate history since postal reorganization. In the Postal
15 Reorganization Act, as amended, Congress provided for a 16-year period of
16 phased regular rate increases for Library Mail. At the end of this period, Library
17 Mail's rates were supposed to cover just direct and indirect costs attributable to
18 the subclass, without making any contribution toward institutional costs.

19 In 1993, Congress passed the Revenue Foregone Reform Act (RFRA),
20 which outlined a further six-year phase-in period for Library Mail rates, during
21 which Library Mail was to begin making increasing contributions to the Postal
22 Service's institutional costs. The phase-in period ended with the beginning of

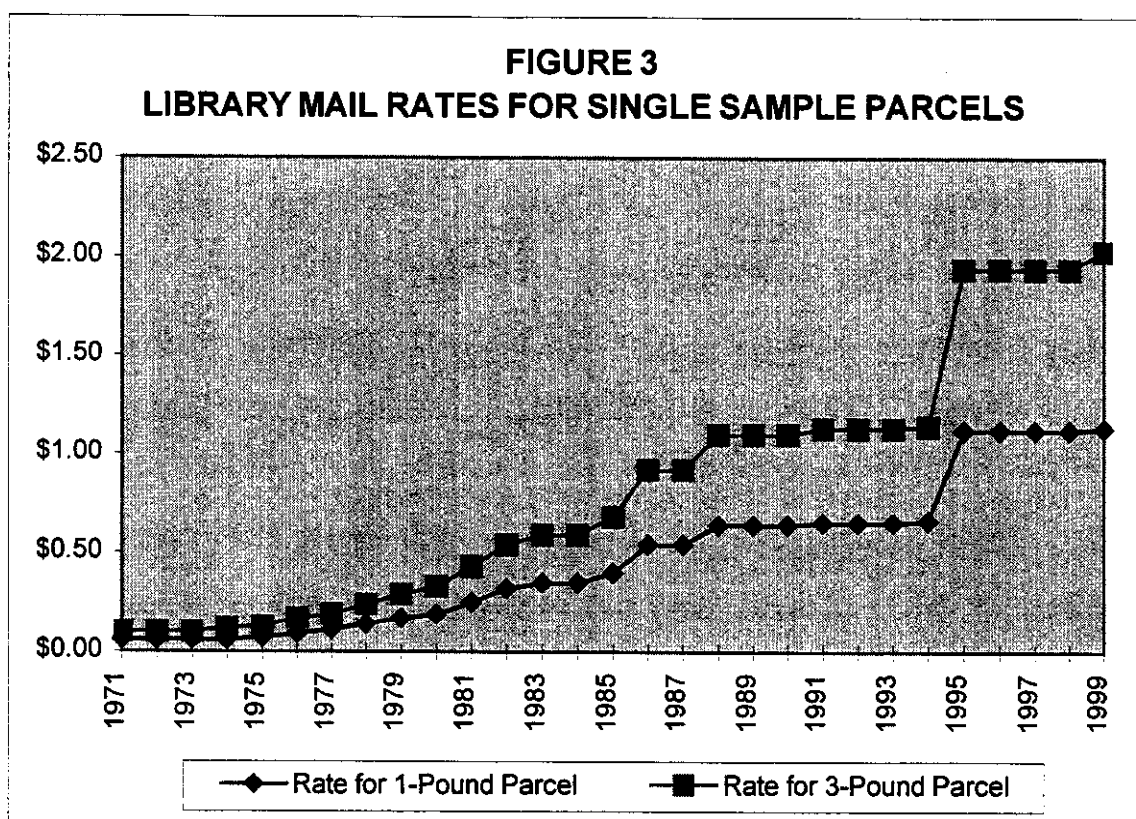
⁸ Initially the Commission declined to recommend rates for Library Mail and, instead, recommended that the Postal Service make all Library Mail items eligible for Special Standard Mail rates. The Postal Service Governors asked the Commission to reconsider this recommendation, and the Commission subsequently recommended a set of rates for Library Mail that were identical to those it had recommended previously for Special Standard Mail.

**TABLE 7
LIBRARY MAIL RATE HISTORY**

Effective Date of Rate	Rates per Pound			Per Piece Presort Discount	
	First Pound	Pounds 2-7	Pounds 8-70	BMC	5-Digit ZIP Code
Jul. 1, 1928	\$0.03	\$0.01	\$0.01		
Mar. 26, 1944*	\$0.03+\$0.01	\$0.01	\$0.01+		
Jan. 1, 1949	\$0.04	\$0.01	\$0.01		
Jan. 7, 1968	\$0.05	\$0.02	\$0.02		
May 16, 1971	\$0.06	\$0.02	\$0.02		
Sep. 9, 1973	\$0.06	\$0.03	\$0.03		
Jul. 6, 1975	\$0.07	\$0.03	\$0.03		
Dec. 31, 1975	\$0.08	\$0.04	\$0.04		
Jul. 6, 1976	\$0.09	\$0.04	\$0.04		
Jul. 6, 1977	\$0.11	\$0.04	\$0.04		
May 29, 1978	\$0.11	\$0.05	\$0.04		
Jul. 6, 1978	\$0.14	\$0.05	\$0.04		
Jul. 6, 1979	\$0.17	\$0.06	\$0.05		
Jul. 6, 1980	\$0.19	\$0.07	\$0.05		
Mar. 22, 1981	\$0.21	\$0.08	\$0.05		
Jul. 6, 1981	\$0.25	\$0.09	\$0.06		
Nov. 1, 1981	\$0.24	\$0.09	\$0.06		
Jan. 10, 1982	\$0.32	\$0.11	\$0.07		
Jul. 6, 1982	\$0.35	\$0.12	\$0.07		
Jul. 28, 1982	\$0.32	\$0.11	\$0.07		
Jan. 9, 1983	\$0.35	\$0.12	\$0.07		
Feb. 17, 1985	\$0.40	\$0.14	\$0.08		
Jan. 1, 1986	\$0.50	\$0.17	\$0.09		
Mar. 9, 1986	\$0.55	\$0.19	\$0.10		
Apr. 20, 1986	\$0.54	\$0.19	\$0.10		
Apr. 3, 1988	\$0.64	\$0.23	\$0.12		
Feb. 3, 1991	\$0.65	\$0.24	\$0.12		
Nov. 21, 1993	\$0.66	\$0.24	\$0.12		
Jan. 1, 1995	\$1.12	\$0.41	\$0.20		
Oct. 1, 1995	\$1.12	\$0.41	\$0.21		
Oct. 6, 1996	\$1.12	\$0.41	\$0.22		
Jan. 10, 1999	\$1.13	\$0.45	\$0.28	\$0.18	\$0.49

* Library Mail and Special Standard, along with Parcel Post, became subject to a 3% surcharge (minimum of 1 cent per parcel) from 3/26/44 through 12/31/48.

1 fiscal year 1999. According to the Act, after fiscal year 1998, Library Mail is to
 2 bear a markup above its attributable costs that is one-half of the markup on the
 3 Special Standard Mail subclass. The first 16-year phase-in period, together with
 4 the recent six-year RFRA phase-in period, have led to many changes in Library
 5 Mail rates since reorganization. Figure 3 shows how the price of mailing some
 6 typical Library Mail parcels have changed since 1971.⁹



7

⁹ Almost half of all Library Mail parcels weigh one pound or less, and 88% are under three pounds.

C. Volume History

In the first years following postal reorganization, Library Mail volume grew sharply, peaking in 1978 at almost 72 million pieces. From that peak, mail

TABLE 8
LIBRARY MAIL VOLUME HISTORY

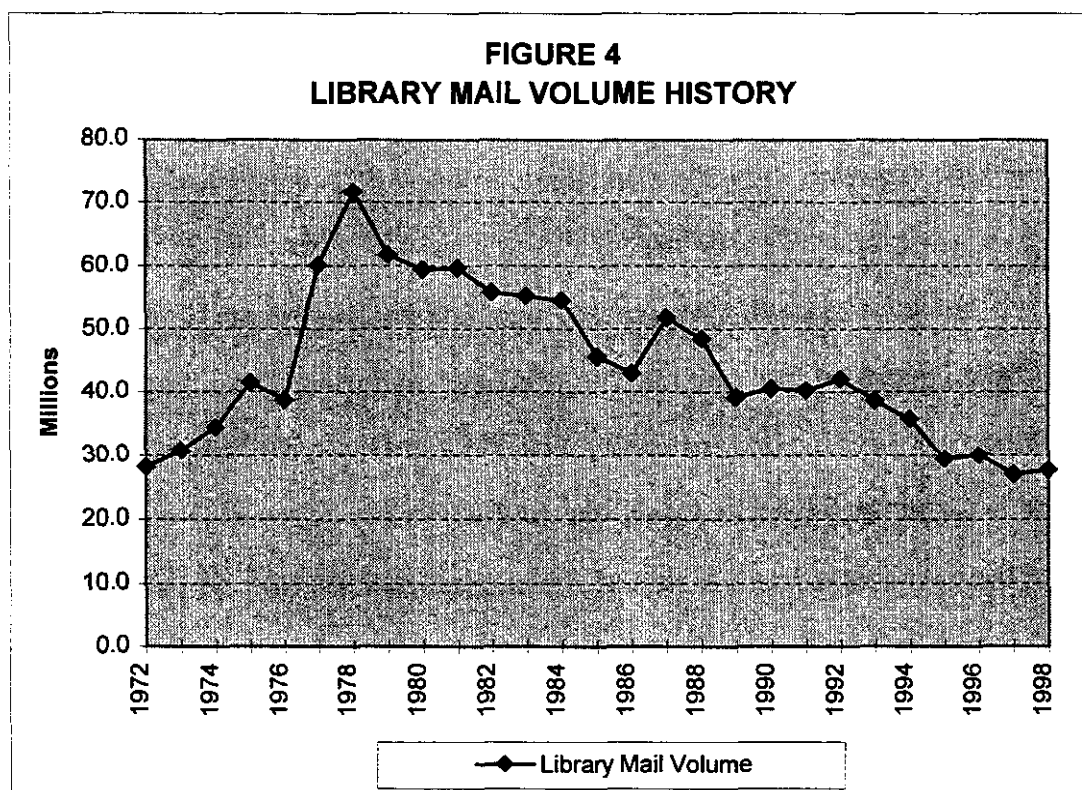
Notes	Fiscal Year	Volume (Millions)
	1972	28.2
	1973	30.8
	1974	34.5
	1975	41.5
	1976	38.7
	1977	60.2
	1978	71.6
	1979	61.8
	1980	59.4
	1981	59.7
	1982	55.9
	1983	55.3
	1984	54.5
	1985	45.6
	1986	43.0
	1987	51.8
<u>1/</u>	1988	48.4
	1989	39.2
	1990	40.6
	1991	40.2
	1992	42.1
	1993	38.7
	1994	35.8
	1995	29.5
	1996	30.1
	1997	27.0
<u>2/</u>	1998	27.7

Note 1/: 1988 and following years are recast to include a share of penalty and franked mail.

Note 2/: 1998 is recast to account for a Parcel Post reclassification.

1 volumes entered a period of secular, though not uninterrupted, decline that has
 2 persisted up to the present. Recent Library Mail volumes are now lower than
 3 they were in 1972, the first full year after reorganization.

4 This period of decline in Library Mail volumes coincided with a long period
 5 of rapidly growing rates (See Table 7 and Figure 3, and the explanation for these
 6 rate increases in Section IV.B., Rate History). Table 8 and Figure 4 show Library
 7 Mail volume history since FY 1972.



8 D. Rate Design

9 1. Methodology

10
 11 My overall rate design methodology for Library Mail is identical to the one I used for
 12 Special Standard Mail. It is based on the assignment of volume variable costs to
 13 the subclass on a per piece and per pound basis. As I did for Special Standard

1 Mail, I developed the preliminary per-pound charge by allocating all attributable
2 transportation costs (Cost Segments 8 and 14), plus the customary two-cent per
3 pound add-on for weight-related non-transportation costs, to the number of postage
4 pounds (see workpaper WP-LM-7). I allocated all other costs plus revenue
5 leakages to the per piece component of the rate (see workpapers WP-LM-8 and
6 WP-LM-9).¹⁰

7 I calculated the per-pound charge by dividing the transportation and non-
8 transportation weight-related costs by the total number of postage pounds and
9 marking these unit costs up by the cost coverage plus contingency markup factor
10 designed to achieve the cost coverage proposed by witness Mayes (USPS-T-32)
11 for Library Mail. I added these two unit costs to derive the preliminary pound
12 charge (see workpaper WP-LM-10).

13 I then divided the non-transportation costs (less the weight-related non-
14 transportation costs) by the total number of pieces and marked up these unit
15 costs by the cost coverage plus contingency markup factor, and added in the
16 per-piece revenue leakages to obtain the preliminary per-piece charge. The
17 details of these calculations are shown in workpapers WP-LM-9 and WP-LM-10.
18 The preliminary first pound single piece rate is the sum of the per-piece charge
19 and the per-pound charge.

20

21 **2. Presort and Barcode Discounts**

22

23 In January, 1999, Library Mail became eligible for presort discounts for the first
24 time. Since these discounts are somewhat new, relatively few mailers have
25 taken advantage of them to date, and cost data on presort Library Mail are

¹⁰ Leakages include revenue lost to Presort A and B, and barcode discounts

1 somewhat scarce and incomplete. I have used Witness Eggleston's estimates of
2 presort cost savings for Special Standard Mail as a proxy for the savings from
3 presorting Library Mail. Since the two subclasses have similar content
4 restrictions and weight profiles, and since their processing characteristics are
5 similar, Special Standard Mail estimates are reasonable proxies for this purpose.

6 To calculate the Presort A and B first pound rates, I deducted Witness
7 Eggleston's (USPS-T-26) respective per-piece cost savings from the single piece
8 first pound rate. Witness Eggleston also reports cost savings of 2.9 cents per
9 piece on barcoded mail, which I rounded up to the nearest whole cent. Eligible
10 single piece and BMC presort barcoded parcels would then receive an additional
11 discount of 3 cents off the first pound rate.

12

13 3. Adjustments to Preliminary Rate Elements

14 Table 9 shows the preliminary first pound and additional pound rate elements for
15 single piece and presort Library Mail. It also includes the current rate elements
16 for comparison. Although these preliminary rates reflect Library Mail's underlying
17 per-piece and per-pound costs, they would produce a rather severe rate shock, if
18 not adjusted. As with Special Standard Mail, to mitigate the impact of the first
19 pound rate increases, I have adjusted the first pound rates downward
20 significantly. To keep the impacts of the adjustments approximately revenue
21 neutral, I increased the per-pound rates for the second to seventh pounds and,
22 to a lesser extent, for the eighth to seventieth pounds. Workpaper WP-LM-11
23 provides the details of these rate adjustments.

24 In Docket No. R97-1, the unit costs of Library Mail were significantly
25 higher than the unit costs of Special Standard Mail, making it impossible for

- 1 Library Mail to bear the markup prescribed for it in RFRA, while still keeping its
2 rates below those of Special Standard Mail.

TABLE 9 COMPARISON OF PRELIMINARY AND CURRENT LIBRARY MAIL RATE ELEMENTS			
	Current Rates	Preliminary Rates	Percent Change
First Pound Rate			
Single Piece	\$1.13	\$1.39	23.0%
Presort A	\$0.64	\$1.03	60.9%
Presort B	\$0.95	\$1.29	35.8%
Pounds 2-7 Rate	\$0.45	\$0.26	-42.2%
Pounds 8-70 Rate	\$0.28	\$0.26	-7.1%

- 3 The Commission initially responded to this problem by recommending that
4 all Library Mail mailers be entitled to enter their mail at the more advantageous
5 Special Standard Mail rates. The Postal Service was concerned that this
6 solution might lead to the practical disappearance of the Library Mail subclass,
7 and the scarcity of mail pieces designated "Library Mail" would make it
8 impossible to accurately track Library Mail costs. The Governors asked the
9 Commission to reconsider its recommendation, and in response the Commission
10 recommended, and the Governors approved, a separate rate schedule for
11 Library Mail, but with rates identical to those on the Special Standard Mail
12 schedule.

- 13 The Library Mail rates recommended by the Commission provided for less
14 than 100% cost coverage, and so did not meet the RFRA target, but in this

1 solution, both the Commission and the Postal Service recognized the essential
2 value of preserving the status of Library Mail as a preferred subclass.

3 Because of the improved unit cost relationship between Library Mail and
4 Special Standard Mail, in this docket I have been able to propose a set of Library
5 Mail rates that decouples the Library Mail and Special Standard Mail rate
6 schedules. My proposed rate schedule gives Library Mail rates one cent lower
7 than Special Standard in every rate cell, which re-establishes Library Mail as a
8 *de-facto* preferred subclass. Furthermore, while it was not possible in this
9 proposal to achieve the full 50% of Special Standard Mail's 12.5% markup as
10 contemplated in RFRA, the Library Mail rates I propose fully cover volume
11 variable costs (plus contingency) and make a reasonable 4.7% contribution
12 toward institutional costs. The Postal Service anticipates the adoption of
13 legislation that will codify the principles followed in this rate case to develop
14 Library Mail rates when preferred rates cannot be achieved using the cost
15 coverage formula described in RFRA.

16

17 **4. Proposed Rate Schedules**

18 My workpaper WP-LM-12 contains my proposed adjusted Library Mail rates, and
19 shows the percentage increase of each proposed rate cell from its current value.
20 The rates do not reflect any barcode discounts. Eligible pieces of single piece
21 and BMC presort Library Mail may receive a further discount of three cents per
22 piece off these rates if they bear a correct, readable barcode showing the
23 delivery address ZIP Code.

24 Table 10 shows the basic Library Mail rate elements: the first pound rate,
25 the per-pound rate for the second through seventh pounds, and the per-pound

**TABLE 10
CURRENT AND PROPOSED RATE ELEMENTS FOR
LIBRARY MAIL**

	Current Rates	Proposed Rates	Percent Change
First Pound Rate			
Single Piece	\$1.13	\$1.20	6.2%
Presort A	\$0.64	\$0.67	4.7%
Presort B	\$0.95	\$0.98	3.2%
Pounds 2-7 Rate	\$0.45	\$0.45	0.0%
Pounds 8-70 Rate	\$0.28	\$0.30	7.1%

rate for the eighth through seventieth pounds, and shows how these elements have changed from the current rates.

5. Financial Impact of Rates

Tables 11 and 12, taken from workpaper WP-LM-15, show the financial impacts of the proposed rate changes. In Table 11 are the total volume, cost (including

**TABLE 11
LIBRARY MAIL FINANCIAL SUMMARY**

	Volume	Cost Including Contingency	Revenue Including Fees	Cost Coverage
Before Rates	29,008,954	\$48,294,925	\$48,517,566	100.5%
After Rates	28,431,621	\$47,444,175	\$49,672,087	104.7%

1 contingency) and revenue, including fees, under both existing and proposed
 2 rates and fees. In Table 12 are the average cost and revenues for the Test
 3 Year Before Rates and Test Year After Rates. Table 12 also shows the
 4 contributions these rates make to institutional costs and percentage increases in
 5 unit rates and costs.

TABLE 12 LIBRARY MAIL PER-PIECE FINANCIAL SUMMARY			
	Cost Per Piece	Revenue Per Piece	Contribution Per Piece
Before Rates	\$1.66	\$1.67	\$0.01
After Rates	\$1.67	\$1.75	\$0.08
Per Piece Changes	0.2%	4.5%	---

6

7 **V. Bound Printed Matter**

8 **A. Description and Characteristics of Bound Printed Matter**

9 The Bound Printed Matter (BPM) subclass originated in July 1939, when
 10 the Postmaster General lowered the fourth-class rates on individually addressed
 11 catalogs and similar bound printed advertising matter having 24 or more pages.
 12 Initially, the rate applied to catalogs that weighed more than eight ounces, but
 13 not more than ten pounds. In August 1958, the lower weight limit was raised to

1 16 ounces and, as a result of Docket No. R97-1, the upper weight limit was
2 increased to 15 pounds.¹¹

3 Up until 1973, the subclass contained only catalogs and similar bound
4 advertising matter, but Docket No. MC73-1 broadened eligibility to include bound
5 printed matter other than catalogs, although most books were still excluded.

6 Unlike Special Standard Mail and Library Mail, the rates for Bound Printed
7 Matter are zoned. Following Postal Reorganization, preferred rates were phased
8 out for Special Standard Mail, leading to a situation where, in some close-in
9 zones, the Bound Printed Matter rates were lower than Special Standard Mail
10 rates. Many book publishers responded to these new rate relationships by
11 including non-incidental advertising in books to make them eligible for the
12 cheaper Bound Printed Matter rates. In Docket No. R90-1, the Postal Service
13 sought to conform the classification's eligibility requirements to this reality. The
14 Commission agreed, and recommended that all books that meet the weight
15 requirements be eligible to be mailed as Bound Printed Matter. Today, Bound
16 Printed Matter consists of catalogs, books, telephone directories, manuals and
17 similar bound volumes. Since March of 1999, mailers sending Bound Printed
18 Matter can also use the Postal Service's new Delivery Confirmation service.

19 Mailers of Bound Printed Matter can take advantage of a number of work
20 sharing discounts, including Basic Presort, Carrier Route and Parcel Barcoding.
21 In this docket the Postal Service will also propose new destination entry
22 discounts for properly prepared mail entered at the Destination BMC, Destination

¹¹ Catalogs and other bound printed matter weighing less than these minimums could be entered as third-class (later, Standard A) mail. In this docket we are proposing to eliminate the 16-ounce weight restriction for purposes of BPM acceptance. See Section V.D. for details.

1 SCF and Destination Delivery Unit. I will discuss these new discount proposals
2 further in Section V.D.

3

4 **B. Rate History**

5 Single piece Bound Printed Matter's rate structure has varied little since
6 its origin. It consists essentially of a per-piece charge and a charge that varies
7 by weight and by delivery zone. In 1964, quantity discounts became available,
8 but mailers could only use permit imprints to pay postage. In 1979, the Postal
9 Service began allowing meter stamps to pay for bulk Bound Printed Matter.

10 The current rate structure dates to 1985, when the Basic Presort and
11 Carrier Route Presort rates replaced the single bulk rate. Presorted mail pays a
12 lower per-piece charge than Single Piece BPM, plus a lower zone-based per-
13 pound charge based on the aggregate weight of the mail traveling to each zone.
14 To be eligible for these reduced rates, mailings must contain at least 300 pieces
15 that are properly prepared and presorted, as appropriate, to ADCs, to 3 or 5-digit
16 ZIP Codes, or to carrier routes.

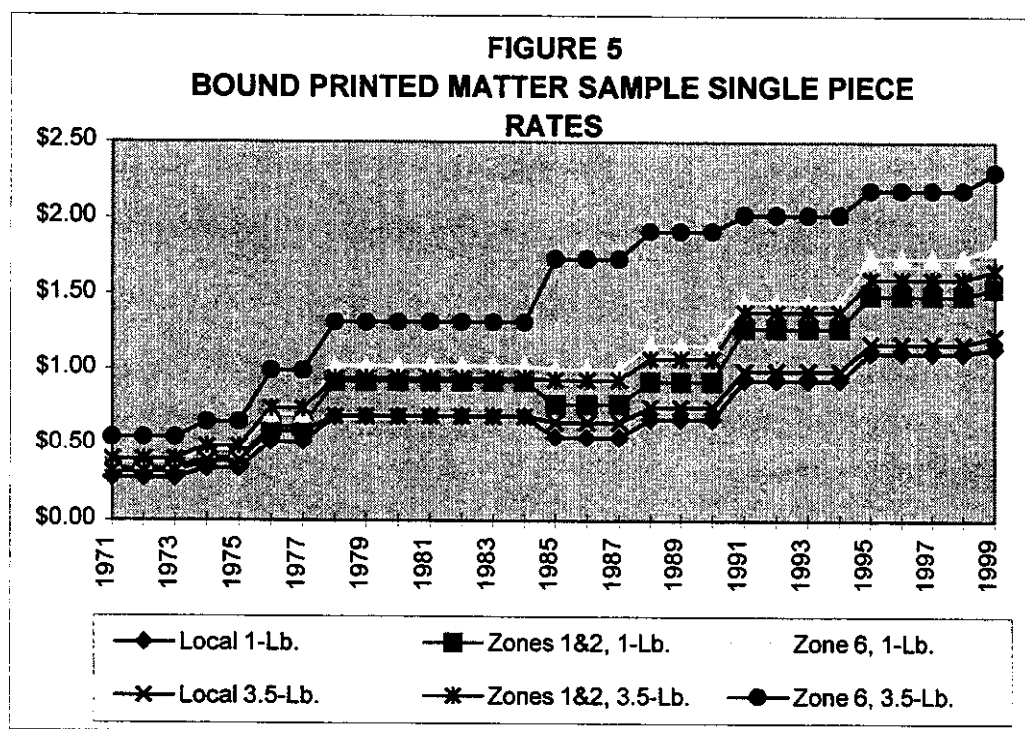
17 Currently, properly prepared and presented mailings of 50 or more
18 machinable parcels of Single Piece or Basic Presort Bound Printed Matter are
19 eligible to receive a further discount of three cents per piece if they bear a
20 correct, readable barcode showing the delivery address ZIP Code.¹² Because
21 carrier route presorting eliminates the need for some of the sorting the barcoding
22 is designed to facilitate, the barcoding and carrier route discounts cannot be
23 taken together.

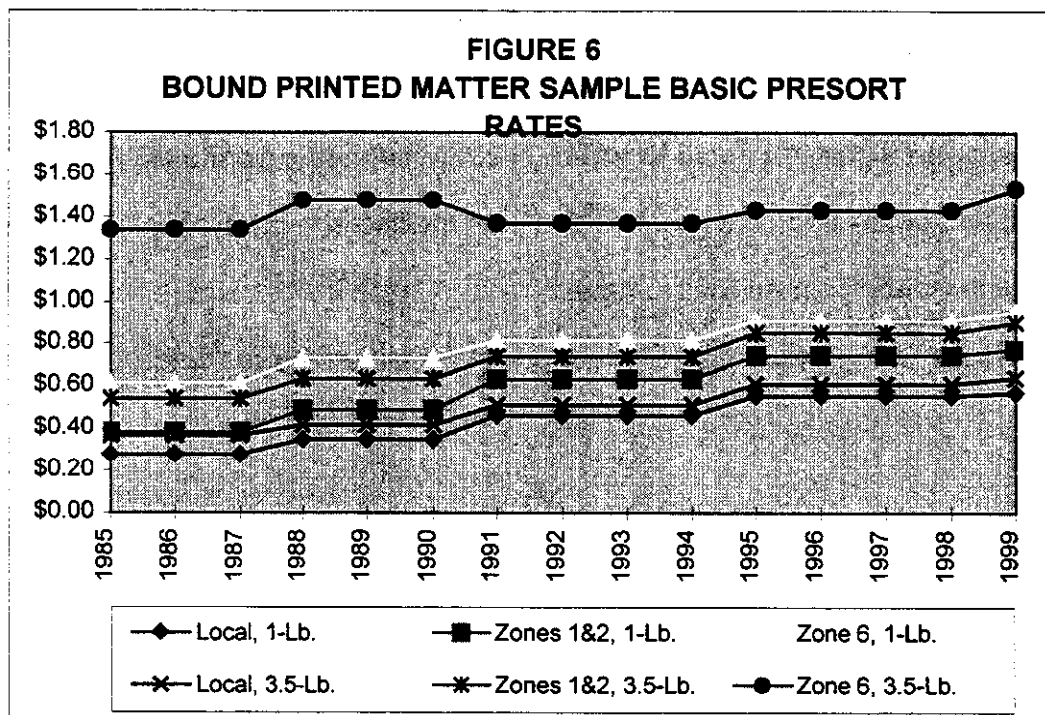
¹² Section E630.2.5 of the Domestic Mail Manual details the eligibility requirements that Bound Printed Matter must meet to receive a barcoding discount.

TABLE 13
BOUND PRINTED MATTER
AVERAGE RATE HISTORY

Fiscal Year	Total BPM Revenue Per Piece	Single Piece Revenue Per Piece	Presort Revenue Per Piece
1972	\$0.35		
1973	\$0.35		
1974	\$0.35		
1975	\$0.39		
1976	\$0.42		
1977	\$0.46		
1978	\$0.50		
1979	\$0.54		
1980	\$0.54		
1981	\$0.53		
1982	\$0.52		
1983	\$0.53		
1984	\$0.55		
1985	\$0.56	\$0.95	\$0.53
1986	\$0.58	\$1.05	\$0.54
1987	\$0.58	\$0.99	\$0.55
1988	\$0.65	\$1.01	\$0.60
1989	\$0.71	\$1.10	\$0.66
1990	\$0.68	\$1.30	\$0.65
1991	\$0.73	\$1.49	\$0.69
1992	\$0.80	\$1.63	\$0.73
1993	\$0.87	\$1.56	\$0.82
1994	\$0.84	\$1.52	\$0.78
1995	\$0.87	\$1.65	\$0.80
1996	\$0.87	\$1.68	\$0.81
1997	\$0.87	\$1.74	\$0.82
1998	\$0.88	\$1.71	\$0.82

1 Bound Printed Matter has a complex rate structure, making it difficult to portray
 2 simply the evolution of its rates over time. Table 13 shows how Bound Printed
 3 Matter's average rates (revenue per piece) have changed since Postal
 4 reorganization. Figures 5 and 6 illustrate this rate evolution from a different
 5 perspective. Figure 5 shows how the prices of mailing some typical pieces of
 6 single piece Bound Printed Matter have changed since 1971. Figure 6 shows
 7 the same picture for typical presort Bound Printed Matter pieces since 1985.





1

2

3 C. Volume History

4 Despite a slight retrenchment in 1998, Bound Printed Matter volumes

5 have experienced rapid growth in recent years. (See Table 14 and Figure 7 for

6 the Bound Printed Matter volume history since 1972.) During the first years after

7 reorganization, volumes were essentially flat and eventually showed only a

8 sluggish growth as the decade of the 1970s ended. In contrast, the 1980s and

9 1990s were a period of sustained rapid growth. The migration of books from the

10 Special Standard subclass was one factor that contributed to this growth initially,

11 but growth continued well into the 1990s, after this migration was believed to be

12 complete.

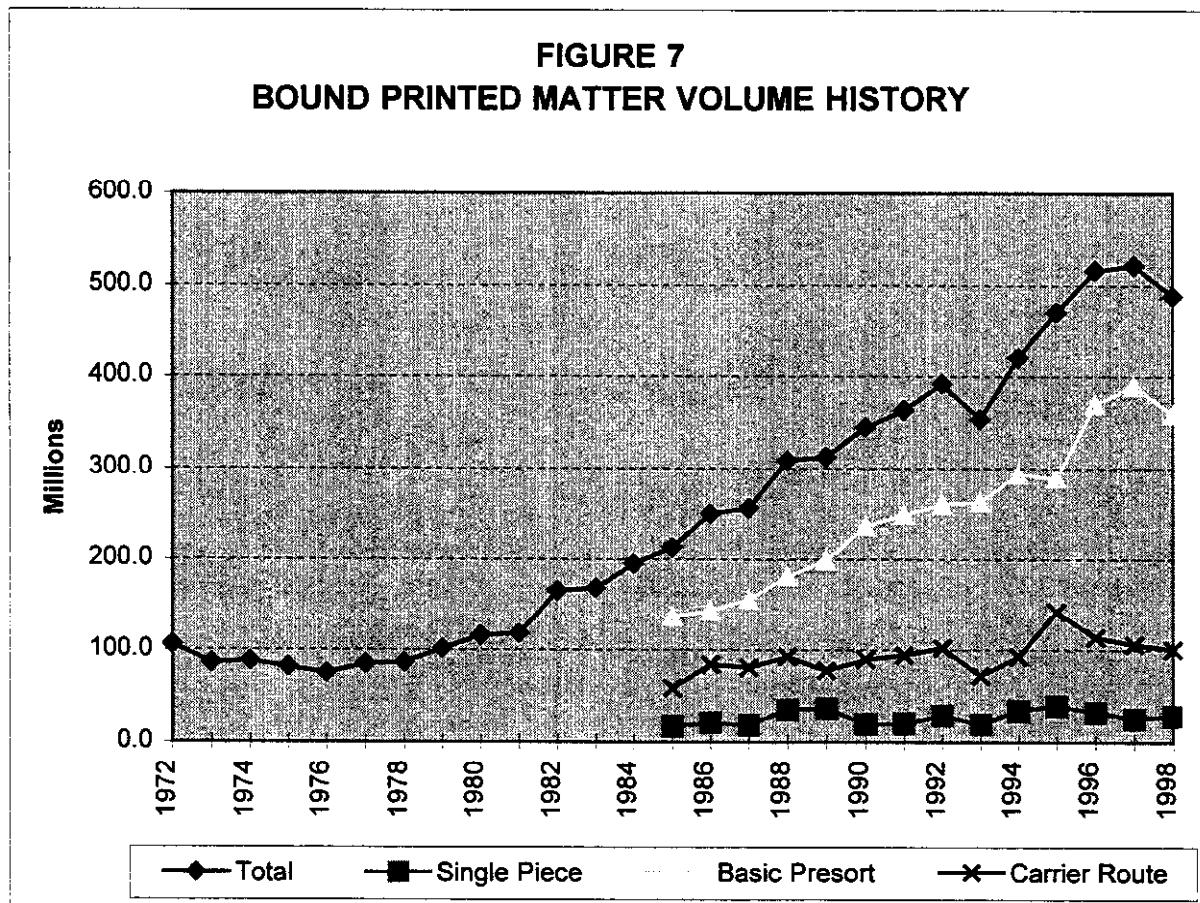
TABLE 14
BOUND PRINTED MATTER VOLUME HISTORY

Notes	Fiscal Year	Total Volume (Millions)	Single Piece Volume (Millions)	Basic Presort Volume (Millions)	Carrier Route Volume (Millions)
<u>1/</u>	1972	106.3			
	1973	86.1			
	1974	88.3			
	1975	81.6			
	1976	75.0			
	1977	85.1			
	1978	86.4			
	1979	101.8			
	1980	116.4			
	1981	118.7			
	1982	165.2			
	1983	168.1			
	1984	194.8			
	1985	212.8	17.3	137.3	58.3
	1986	249.2	21.2	143.5	84.5
	1987	255.5	18.7	155.8	81.1
	1988	308.9	35.3	180.8	92.8
	1989	312.3	36.6	198.1	77.6
	1990	344.8	19.6	235.2	90.0
	1991	363.5	20.4	248.6	94.5
	1992	391.8	29.2	259.8	102.8
	1993	353.6	19.7	261.9	72.0
	1994	420.1	34.2	293.0	92.8
	1995	470.9	39.5	288.7	142.7
	1996	516.1	32.5	369.5	114.1
	1997	521.7	25.4	389.8	106.5
<u>2/</u>	1998	488.4	28.6	359.0	100.8

Note 1/: 1988 and following years are recast to include a share of penalty and franked mail.

Note 2/: 1998 is recast to account for a Parcel Post reclassification.

1 As Figure 7 shows clearly, most of the growth since 1985 has come from
 2 presorted mail, especially Basic Presort. From 1985 to 1998, Basic Presort
 3 Bound Printed Matter has grown at an average rate of 7.7% per year, increasing
 4 its share of the total volume from 64% to 73%. Over the same period, total



5 presort volume's share rose from 92% to 94%. Single piece Bound Printed
 6 Matter volume has remained rather stable, causing its market share to decline as
 7 presort volumes surged. Carrier Route presort volume grew unevenly from 1985
 8 to 1995, but has decreased each year since then.

9

1 **D. Proposed Changes to DMCS**

2 *Elimination of the Local zone.*

3 The Postal Service proposes that the Commission recommend elimination
4 of a separate Local zone rate for Bound Printed Matter. In the past, Local rates
5 were developed under the assumption that Local mail would be deposited at the
6 destination post office and would therefore avoid transportation and certain
7 processing costs. Experience has shown that Bound Printed Matter entered as
8 Local mail has often been deposited at offices other than the actual destination
9 delivery unit, thus imposing costs on the Postal Service for processing and
10 transportation that were not incorporated into the Local rate.

11 In place of the Local rate I am proposing a Destination Delivery Unit
12 (DDU) discount for Bound Printed Matter, described below.¹³ By restricting the
13 availability of these discounts to DDU-entered mail, the Postal Service will
14 ensure that the rates paid by mail claiming the discounts will more closely reflect
15 the costs to process and deliver it.

16

17 *Establishment of Drop-Shipping Discounts.*

18 In this docket the Postal Service is proposing three new discounts for
19 properly prepared presorted mail that is entered at the destination BMC (DBMC),
20 destination SCF (DSCF), and DDU. This proposal is designed to recognize that
21 the Postal Service enjoys cost and processing savings when mailers enter their
22 mail close to its delivery destination. The new discounts will better align rates
23 with the costs of transporting, processing and delivering Bound Printed Matter.
24 Currently, mailers of Bound Printed Matter who drop-ship their mail receive no

¹³ With elimination of the Local zone, all mail formerly paying the Local rate would fall into the Zones 1&2 rate category, unless prepared and entered as DDU mail.

1 price incentive to encourage them to continue the practice. The proposed
2 discounts should send appropriate price signals that encourage these cost-
3 saving practices.¹⁴

4
5 *Elimination of the One-Pound Weight Restriction.*

6 To accommodate BPM mailers who wish to mail pieces that weigh less
7 than one pound, the Postal Service is proposing that the one-pound lower weight
8 limit be eliminated for Bound Printed Matter. This elimination will only affect the
9 acceptance of such mail: for rate purposes, each piece of mail weighing under
10 one pound will be treated as if it weighed one pound exactly. Witness Plunkett is
11 proposing a similar elimination of the one-pound restriction for Parcel Post.

12
13 **E. Rate Design**

14 **1. Methodology**

15 My basic rate design continues the per piece and per pound zoned rate
16 structure that has been used for Bound Printed Matter in recent rate cases. My
17 methodology begins with allocating total volume variable costs between weight-
18 related and non-weight-related costs, and between single piece costs and
19 presort mail costs. To develop the preliminary per pound component of the rate,
20 I first obtained a projection of zoned transportation costs per pound from Witness
21 Crum (USPS-T-27), and used these estimates to apportion total costs into
22 transportation costs and non-transportation costs. I then apportioned the non-
23 transportation costs between single piece and presort costs, employing the 2 to
24 1 ratio for single piece to presort per-unit handling costs used by the Postal

¹⁴ To make drop-shipped BPM consistent with drop-shipped Parcel Post, the Postal Service also proposes that mailers using these rates pay an annual \$100 destination entry permit fee.

1 Service and the Commission in all recent rate cases. I also apportioned non-
2 transportation costs further between weight-related and non-weight-related
3 costs, allowing the customary two-cents per pound for weight-related non-
4 transportation costs. For details of these calculations, see workpapers (WP-
5 BPM-10), (WP-BPM-11), and (WP-BPM-12).

6

7 *Preliminary Single Piece Charges.*

8 I developed the preliminary per-piece charge for Single Piece Bound Printed
9 Matter by marking up the single piece per-unit non-weight-related non-transportation
10 costs by the cost coverage plus contingency markup factor designed to achieve the
11 cost coverage provided by Witness Mayes (USPS-T-32), and adding in the single
12 piece per-unit revenue leakages (from barcoded mail discounts).

13 I then added together all the weight-related single piece costs (transportation
14 and non-transportation), marked them up by the cost coverage plus contingency
15 markup factor, and divided them by the total TYBR single piece pounds, to arrive at
16 the per-pound charge for Single Piece BPM. The detailed calculations for
17 developing both the per-piece and per-pound preliminary charges are contained in
18 workpaper (WP-BPM-14).

19

1 *Preliminary Presort Charges.*

2 I developed the preliminary Basic Presort BPM per-piece charge by marking
3 up the non-transportation non-weight related presort mail unit costs by the cost
4 coverage plus contingency markup factor designed to achieve the cost coverage
5 supplied by Witness Mayes (USPS-T-32), and adding in the per-piece revenue
6 leakages (from barcoded mail and carrier route presort discounts, and the drop-ship
7 presort mail cost savings estimates provided by Witness Crum (USPS-T-27)).

8 I calculated the preliminary Basic Presort per-pound charge by first dividing
9 the sum of the presort mail transportation and weight-related non-transportation
10 costs by the total presort pounds, and marking up the unit costs by the cost
11 coverage plus contingency markup factor. I then added in the per pound revenue
12 leakages based on cost savings data for drop-shipped presort mail supplied by
13 Witness Crum (USPS-T-27). The details of the calculations for both the per-piece
14 and per-pound preliminary charges are contained in workpaper WP-BPM-14.

15

16 **2. Discounts**

17 Bound Printed Matter currently has discounts available for barcoding and
18 carrier route presorting. Witness Eggleston (USPS-T-26) reports cost savings of
19 2.9 cents per piece on barcoded mail. I round this per piece cost savings up to
20 the nearest whole cent and propose that eligible barcoded BPM receive a
21 discount of 3 cents off the Single Piece or Basic Presort per-piece rate, as
22 appropriate. Consistent with current practice for Standard B mail, I propose that
23 eligibility for the barcode discount not be available for DDU and DSCF mail, or to
24 DBMC mail that is entered at an ASF, except the Phoenix, AZ, ASF. Phoenix
25 ASF has the machinery in place to take advantage of delivery address ZIP Code
26 barcodes when sorting Standard B parcels. Other mail preparation and entry

1 requirements pertaining to the barcode discount for BPM are described in DMM
2 section E630.2.5.

3 Witness Crum (USPS-T-27) has estimated that carrier route presorting
4 saves 7.7 cents per piece. I propose that properly prepared mailings of at least
5 300 pieces that are sorted to carrier routes receive a discount of the full 7.7
6 cents off the Basic Presort per-piece rate.

7 I calculated the preliminary per-piece and per-pound charges for DBMC,
8 DSCF and DDU mail using the per-piece cost savings provided by Witness Crum
9 (USPS-T-27) and his zoned per-pound transportation cost estimates for drop-
10 shipped BPM. The calculations for the per-pound cost savings are shown in my
11 workpaper WP-BPM-12.

12 After calculating the per-piece and per-pound savings, I developed the
13 preliminary charges for these three drop-ship discount rate categories by
14 subtracting these per-unit savings from the respective Basic Presort preliminary
15 charges. The preliminary drop-ship charges (before adjustments) for DBMC,
16 DSCF and DDU Bound Printed Matter are shown in my workpaper WP-BPM-15,
17 columns [B] and [G], rows [j] to [p].

18

19 **3. Adjustments to Preliminary Rate Elements**

20 The preliminary rate elements for Single Piece and Basic Presort Bound Printed
21 Matter are shown in Table 15. I have also included the current rates for
22 comparison. While the single piece per-piece rate element exhibits only a
23 modest increase, the presort per-piece rate and both single piece and presort
24 per-pound rate elements through Zone 5 exhibit much steeper increases. Such
25 increases would produce a severe rate shock if the preliminary charges were
26 implemented without adjustment.

1 Aside from mitigating rate shock, there are several other policy reasons
 2 why some of these preliminary rate elements should be adjusted. First, the jump
 3 in Basic Presort BPM rates shown in Table 15 is due to a significant degree to
 4 de-averaging the presort rate into drop-shipped and non-drop-shipped (that is,

TABLE 15 COMPARISON OF PRELIMINARY AND CURRENT BOUND PRINTED MATTER RATE ELEMENTS			
	Current Rates	Preliminary Rates	Percent Change
Single Piece Rates			
Per Piece	\$1.44	\$1.48	2.8%
Per Pound			
Zones 1&2	\$0.064	\$0.158	146.9%
Zone 3	\$0.087	\$0.177	103.4%
Zone 4	\$0.126	\$0.201	59.5%
Zone 5	\$0.184	\$0.241	31.0%
Zone 6	\$0.246	\$0.281	14.2%
Zone 7	\$0.321	\$0.327	1.9%
Zone 8	\$0.385	\$0.417	8.3%
Basic Presort Rates			
Per Piece	\$0.720	\$1.062	47.5%
Per Pound			
Zones 1&2	\$0.051	\$0.124	143.1%
Zone 3	\$0.073	\$0.152	108.2%
Zone 4	\$0.112	\$0.178	58.9%
Zone 5	\$0.171	\$0.218	27.5%
Zone 6	\$0.233	\$0.258	10.7%
Zone 7	\$0.307	\$0.304	-0.9%
Zone 8	\$0.371	\$0.394	6.2%

1 Basic Presort) components. Since there are no drop-ship discount rates in effect
2 at present, it was necessary to develop proxy measures for the costs and cost
3 savings generated by drop-shipping Bound Printed Matter. Prudence argues for
4 a conservative implementation of these discounts, passing through only a portion
5 of the estimated cost savings in this rate proceeding, in case the proxy cost
6 savings turn out to be overly optimistic.

7 Second, the per-piece cost savings estimated by Witness Crum for DBMC
8 Bound Printed Matter are based on the assumption that BMC mail processing
9 costs are nearly 100% volume variable. While the Postal Service is using this
10 assumption for calculating attributable costs in this docket, it is uncertain that
11 mail drop-shipped to BMCs will avoid all of these costs, also arguing for a more
12 conservative pass-through strategy.

13

14 *Single Piece Rate Adjustments*

15 To avoid rate shock in the close-in zones, especially for the cells in the
16 middle and heavier ends of the rate schedule, I lowered the per-pound rates in
17 Zones 1&2 through Zone 5. To offset the revenue impacts, and maintain
18 appropriate rate relationships between single piece and presort BPM, I then
19 increased the per-piece charges and raised slightly the per-pound charges in
20 Zones 6 through Zone 8. Workpaper WP-BPM-15 contains the details of these
21 rate adjustments.

22

23 *Presort Rate Adjustments*

24 The presence of the three new drop-ship discounts complicated the rate
25 adjustment picture for presort Bound Printed Matter. As Table 15 indicates, both
26 the Basic Presort per-piece and Zones 1&2 through Zone 5 per-pound rate

elements should be adjusted downward to avoid rate shock. Since there is little volume in the remaining zones, the revenue lost through rate mitigation must be generated by tempering the amounts of potential drop-ship discounts that are passed through.

I lowered both the Basic Presort per-piece charge and the per-pound charges for Zones 1&2 through Zone 5. I was able to raise the per-pound charges for Zones 6 through Zone 8, offsetting a little of the revenue loss and keeping some overall balance in the percentage increases in the rate schedule. Because most of presort BPM's volume is already drop-shipped, it was necessary to raise the rest of the lost revenue by adjusting upward the per-piece components of the DBMC, DSCF and DDU rate categories. Since both single piece and presort per-pound rates were adjusted downward, I also had to reduce the per-pound rates for the drop-ship rate categories to maintain appropriate rate relationships between drop-ship and non-drop-ship categories. The details of my rate adjustments for presort mail, including for drop-shipped mail are shown in my workpaper WP-BPM-15

4. Proposed Rate Schedules

Table 16, adapted from my workpaper WP-BPM-16 shows my proposed adjusted rate elements for Single Piece and Presort Bound Printed Matter, including proposed rates for Carrier Route Presort and DBMC, DSCF and DDU rates. The detailed rate tables for each of these rate categories are contained in my workpapers WP-BPM-17 through WP-BPM-21. Workpapers WP-BPM-22 through WP-BPM-26 show the percentage changes for each rate cell from the R97-1 rates. In the case of DBMC, the percentage changes are taken with reference to the R97-1 Basic Presort or Carrier Route Presort zoned rates, as

TABLE 16
PROPOSED ADJUSTED BOUND PRINTED MATTER RATES

	Per Piece Rate	Per Pound Rate						
		Zones 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Single Piece	\$1.58	\$0.08	\$0.11	\$0.16	\$0.23	\$0.30	\$0.39	\$0.46
Basic Presort Origin Entry	\$0.905	\$0.064	\$0.092	\$0.138	\$0.209	\$0.286	\$0.376	\$0.450
DBMC	\$0.843	\$0.060	\$0.086	\$0.132	\$0.201	---	---	---
DSCF	\$0.659	\$0.035	---	---	---	---	---	---
DDU	\$0.608	\$0.033	---	---	---	---	---	---
Carrier Route Origin Entry	\$0.828	\$0.064	\$0.092	\$0.138	\$0.209	\$0.286	\$0.376	\$0.450
DBMC	\$0.766	\$0.060	\$0.086	\$0.132	\$0.201	---	---	---
DSCF	\$0.582	\$0.035	---	---	---	---	---	---
DDU	\$0.531	\$0.033	---	---	---	---	---	---
Barcode Discount	\$0.03							

- 1 appropriate. DSCF percentage changes are computed with reference to R97-1
- 2 Zones 1&2 rates, and DDU changes are computed with reference to R97-1 Local
- 3 zone rates.
- 4 The rates presented in these tables and workpapers do not reflect any
- 5 barcode discounts. Eligible pieces of machinable BPM may receive a further

1 discount of three cents per piece off these rates if they bear a correct, readable
 2 barcode showing the delivery address ZIP Code.¹⁵

3

4 **5. Financial Impact of Rates**

5 Tables 17 and 18 show the financial impacts of the proposed Bound
 6 Printed Matter rate changes, including the new discounts. In Table 17 are the
 7 total volume, cost (including contingency) and revenue, including fees, under

TABLE 17 BOUND PRINTED MATTER FINANCIAL SUMMARY				
	Volume	Cost Including Contingency	Revenue Including Fees	Cost Coverage
Before Rates	541,975,772	\$493,423,725	\$492,553,800	99.8%
After Rates	524,742,871	\$479,203,900	\$563,442,826	117.6%

8 both existing and proposed rates and fees. Table 18 shows the average cost
 9 and revenues for the Test Year Before Rates and Test Year After Rates, as well
 10 as the contributions these rates make to institutional costs and the percentage
 11 increases in unit rates and costs.

12

¹⁵ See Section V.E.2. for more details on eligibility.

1

TABLE 18 BOUND PRINTED MATTER PER-PIECE FINANCIAL SUMMARY			
	Cost Per Piece	Revenue Per Piece	Contribution Per Piece
Before Rates	\$0.91	\$0.91	\$0.00
After Rates	\$0.91	\$1.07	\$0.16
Per Piece Changes	0.3%	18.1%	---

